

FY07 - Tax Consequences and Dependents

To help you determine if your dependent is a Qualified Child (QC) or Qualifying Relative (QR) under federal tax law, consult IRS Publication 501 (<http://www.irs.gov/publications/p501/index.html>). Much more information on federal tax law is available throughout the IRS Web site www.irs.gov.

Even though the definition of eligible dependent for the State of Colorado's medical and dental benefits purposes has been expanded due to HB05-1101, the benefits are not necessarily tax-free. Before you make your election, you should understand the tax implications of covering a child who is not a Qualifying Child (QC) or Qualifying Relative (QR) under federal tax law.

Q1 - How do I know if my dependent is a QC or QR?

A1 - Are you entitled to claim the dependent on your federal tax return? If not, your dependent is not a QC or QR. If you are uncertain, you may wish to consult with your professional tax advisor or the IRS (see Web sites above).

Q2 - My dependent is not a QC or QR; what happens if I chose the PRE-TAX option for medical and/or dental coverage?

A2 - Under federal tax law, you **CANNOT** pay for coverage for someone who is not a QC or QR on a pre-tax basis. If your eligible dependent is not a QC or QR and you select the pre-tax option, the full, fair market value of your dependent's coverage will be taxed as additional income.

Q3 - My dependent is not a QC or QR; are there any tax consequences if I choose the AFTER-TAX option?

A3 - If your eligible dependent is not a QC or QR and you select the after-tax option, you will be taxed on the difference between the fair market value of your dependent's coverage and the amount you paid for your dependent's coverage.

Q4 - What is the fair market value of my dependent's coverage?

A4 - The fair market value is the COBRA premium that your dependent would pay if he or she became ineligible for coverage.

Q5 - I am entitled to claim my QR (niece, nephew, sibling, elderly parent, etc.) as a dependent on my federal tax return; may I enroll him or her in my medical and dental plan as my eligible dependent?

A5 - Your QR is not necessarily benefits eligible. Unless your relative also meets the State's definition of an eligible dependent, he/she may not be covered as your dependent. Check with your department benefits administrator.